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Europe

# The Euro: to leave or not to leave?

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**The unfolding of the crisis can be summarized in a simple way: capitalism reproduced itself during the two decades preceding the crisis by accumulating a mountain of debts. To avoid the collapse of the system, governments took responsibility for the bulk of these debts which, from being private, became public. Their project is now to present the bill to their citizens in the form of budgetary cuts, increases in the most unjust taxes and freezing of wages. In short the majority of the population (workers and pensioners) must ensure the realization of fictitious profits accumulated over long years.**

There was a fault in the original design. To seek to build an economic space with a single currency, but without a common budget, was not a coherent project. A truncated monetary union becomes a machine to manufacture heterogeneity and divergence. The countries which have higher than average inflation lose competitiveness and are encouraged to base their growth on over-indebtedness.

Retrospectively, the choice of the euro did not, moreover, have an obvious justification compared to a system of common currency, with a convertible euro for relations with the rest of the world, and readjustable currencies within each country. Actually, the euro was conceived of as an instrument of budgetary and especially wage discipline. Since recourse to devaluation was impossible, wages became the only element of adjustment.

However, the system functioned after a fashion thanks to over-indebtedness and, at least initially, to the fall of the euro compared to the dollar. These expedients were necessarily going to become exhausted, and things started to go wrong with Germany's policy of wage deflation, which led it to increase its market shares, principally inside the euro zone. Even if the euro zone was in overall equilibrium, the gap thus widened between the German surpluses and the deficits of most of the other countries. The growth rates of the countries of the euro zone did not converge: on the contrary they tended to diverge, and that process began with the creation of the euro.

This configuration was not tenable. The crisis brutally accelerated the processes of fragmentation and financial speculation revealed to the light of day the tensions inherent in neoliberal Europe. The crisis deepened the polarization of the euro zone into two groups of countries. On one side, Germany, the Netherlands and Austria benefited from large trade surpluses and their public deficits remained moderate.

On the other, there were already the famous "PIGS" (Portugal, Italy, Greece and Spain) in an opposite situation: large trade deficits and public deficits that were already above the average. With the crisis, the public deficits grew everywhere, but much less so in the first group of countries, which maintain trade surpluses. In all the other countries, the situation is getting worse, with the explosive growth of public deficits, and a growing imbalance of the balance of trade. In Europe, the sovereign debt crisis has accelerated the turn towards austerity which was programmed in any case. The speculation against Greece, then Ireland and Portugal was possible because there were no measures of control over the banks, nor any mutual responsibility taken for debts on a European level. Moreover, it is the central banks that provide the ammunition, by lending to the banks at one per cent interest the money which will then be used to take advantage of the rise in the rates paid by countries, and to pocket the difference.

Since public debt has taken over from private debt, the financial crisis is rebounding on that terrain. From this point of view, the rescue plans for the euro are actually rescue plans for the European banks which hold a large part of the debt of the threatened countries. Speculative attacks are used as arguments in favour of moving quickly to drastic austerity plans. This is a piece of nonsense which can lead only to a new recession, including in Germany where exports to the emergent countries will not be able to compensate for losses on the European markets.

At bottom, the European governments have one objective: to return as quickly as possible to business as usual. But this objective is out of reach, precisely because everything that had made it possible to manage the contradictions of a wobbly monetary integration has been made unusable by the crisis. These elements of analysis are today quite widely shared. They lead however to opposite prognoses and orientations: the breaking-up of the euro zone, or a refounding of the way Europe is built.

# For a refounding of Europe

The essential principle is the optimal satisfaction of social needs. The starting point is thus the distribution of wealth. From the capitalist point of view, the way out of the crisis goes via a restoration of profitability and thus an additional pressure on wages and employment.

But it is the share of the national revenue taken away from wages which fed the financial bubbles. And in fact the neoliberal counter-reforms deepened the deficits, even before the outbreak of the crisis. So the equation is simple: we will not get out of the crisis in a positive way without a significant modification of the distribution of income. This question comes before that of growth. Admittedly, a more constant growth would be favourable to employment and to wages (it is still is necessary to discuss the content of it from an ecological point of view) but, in any case, we cannot count on this variable if, at the same time, the distribution of income becomes increasingly uneven.

It is thus necessary to attack inequalities in a pincer movement: on the one hand by increasing the volume of wages, on the other by tax reform. The readjustment of wages could follow a rule of three thirds: a third for direct wages, a third for socialized wages (social protection) and a third for job creation by reduction of working time. This progression would be effected to the detriment of dividends, which do not have any economic justification or social utility. The budget deficit should be gradually reduced, not by a cut in expenditure, but by a re-taxation of all the forms of income which have little by little been exempted from tax. In the immediate future, the cost of the crisis should be assumed by those who are responsible for it, in other words most of the debt should be cancelled and the banks nationalized.

Unemployment and precarity were already the most serious social evils of this system: the crisis has reinforced them, more especially as the austerity plans will worsen the conditions of existence of the most disadvantaged. There again, hypothetical growth should not be regarded as the panacea. Produce more to be able to create jobs? That is putting things back to front. Here we must implement a total change of perspective and take job creation as the starting point. Whether by reduction of working time in the private sector, or by job creation in the civil service, public services and communities, it is necessary to start from needs and to understand that in fact employment creates wealth (not necessarily commercial). And that makes it possible to make a link with environmental concerns: giving priority to free time and the creation of useful jobs are two essential components of any programme of fighting against climate change.

The question of the distribution of income is thus the right place to start, around this simple principle: “we will not pay for their crisis”. That has nothing to do with “relaunching the economy through wage increases”, but with a defence of wages, employment and social rights, something which should be non-negotiable. We can then put forward the complementary concept of control: control over what they do with their profits (pay dividends or create jobs); control over the use of taxes (subsidize the banks or finance public services). What is involved here is to progress from defence to control: only this shift can make it possible for the calling into question of private property of the means of production (real anticapitalism) to acquire a mass audience.

As Ã–zlem Onaran [1] summarizes it well: “A consensus is emerging between the European anticapitalist forces around a strategy based on four pillars: 1) resistance to austerity policies; 2) radical tax reform and control of capital; 3) nationalization/socialization of the banks under democratic control; 4) audit of the debt under democratic control, possibly followed by a default.

# Exit from the euro?

What would be the advantage of leaving the euro? The principal argument is that it would make possible a devaluation of the new currency which would restore the competitiveness of the country concerned. It would give back to the Central Bank the possibility of emitting currency in order to finance its deficit in a different way. Those who are the most optimistic see there a means of re-industrialising an economy, to attain higher growth and to create jobs.

The fusion of the national currencies in the euro took away an essential variable of adjustment, the foreign exchange rate. The countries whose price competitiveness is declining have no other means, within the current European framework, than limiting wages and rushing headlong into indebtedness. This is true, but it does not prevent the scenario of an exit from the euro from being incoherent.

Leaving the euro would in no way solve the question of the debt and would on the contrary worsen it, insofar as the debt owed to non-residents would be immediately increased by the rate of devaluation. The restructuration of the debt should therefore in any case be realized before the exit from the euro.

To return to a national currency in the case of countries which have large external deficits would subject them directly to speculation on the currency. Belonging to the euro at least had the advantage of preserving countries from these speculative attacks: thus the trade deficit of Spain reached 9 per cent of GDP without any effect, obviously, on “its” currency.

A devaluation makes the products of a country more competitive, in any case with regard to the countries which do not devaluate. It would thus be necessary for the exit from the euro to concern only a small number of countries. It is thus a non co-operative national solution where a country seeks to gain market shares from its trading partners. But a devaluation increases the price of imports, which has repercussions on internal inflation and can in part cancel out the gains in competitiveness of export prices. The economist Jacques Sapir, who has worked out a plan for an exit from the euro for France [2], recognizes that inflation “will force regular devaluations (every year or every 18 months)” in order to maintain a constant real foreign exchange rate. That amounts to accepting an endless round of inflation-devaluation. The competitiveness of a country rests on material elements: productivity gains, innovation, industrial specialization, etc. To think that manipulating foreign exchange rates can be enough to ensure competitiveness is largely an illusion.

That is why there is almost no experience of a devaluation which did not result in increased austerity, which in the last analysis hits the workers. For devaluation to be a means for putting in place another distribution of wealth and another type of growth, the relationship of social forces would have to have been profoundly transformed. To make leaving the euro a precondition thus amounts to reversing the priorities between social transformation and the foreign exchange rate. That is a very dangerous slippery slope. In his document, Jacques Sapir stresses that “the new currency should then be inserted into changes in macroeconomic and institutional policy (…) if we want it to produce all the expected effects”. Among these changes, he quotes an increase in wages that would make up for previous losses, the perpetuation of social systems, strict control over capital, the requisition of the Bank of France, state control of banks and insurance companies. But all these measures should be imposed even before any project of exit from the euro.

Moreover, a government of social transformation would make a terrible strategic error by starting by leaving the euro, since it would be exposed thus to all the retaliatory measures.

Politically, there is a very big risk of giving a left legitimacy to populist programmes. In France, the National Front is making leaving the euro one of the axes of its policy. It is coming back to a national-socialist logic which combines a xenophobic discourse with an analysis that makes European integration the exclusive source of all economic and social evils.

That is the root of the question. Neoliberal globalization and European integration reinforce the relationship of forces in favour of capital. But it is not possible to make it the single cause, as if a better sharing of wealth could be established spontaneously, inside each country, on the sole condition of taking protectionist measures. To make out that leaving the euro could in itself improve the relationship of forces in favour of the workers is at bottom a fundamental error of analysis. It is however enough to consider the British example: the pound sterling does not form part of the euro, but that does not protect the population from one of the most brutal austerity plans in Europe.

The partisans of an exit from the euro advance another argument: leaving the euro would be an immediate measure, relatively easy to take, whereas a perspective of refounding Europe would be out of reach. This argument ignores even the possibility of a strategy of breaking with capitalism, which does not presuppose that it happens simultaneously in all European countries.

# For a strategy of breaking and extension

The choice thus seems to be between a hazardous adventure and a utopian harmonization. The central political question is then to find a way out of this dilemma. To try to answer this question, it is necessary to work on the distinction between ends and means. The goal of a policy of social transformation is, once again, to ensure for all citizens a decent life in all its dimensions (employment, health, retirement, housing, etc). The immediate obstacle is the distribution of income which it is necessary to modify at the source (between profits and wages) and to correct on the tax level. It is thus necessary to take a whole range of measures aimed at deflating financial incomes and at carrying out a radical tax reform. These objectives involve challenging the dominant social interests and their privileges, and this confrontation proceeds above all within a national framework. But the arsenal of these dominant interests and the possible retaliatory measures go beyond this national framework: in the immediate term, loss of competitiveness, capital flight and breaking European rules.

The only possible strategy must then be based on the legitimacy of progressive solutions, which results from their eminently co-operative nature. All the neoliberal recommendations come down in the last instance to the search for competitiveness: wages should be lowered, to reduce the “costs” so as to, in the final analysis, win market shares. Since growth will be weak during the period opened up by the crisis in Europe, the only means for a country to create jobs will be to take some from neighbouring countries, all the more so as the majority of the foreign trade of European countries is conducted within Europe. This is true even for Germany (first or second world exporter along with China), which cannot count on only the emergent countries to drive forward its growth and its level of employment. The neoliberal ways out of the crisis are thus by nature not co-operative: one can win only against the others, and this is, moreover, at the root of the crisis of European construction.

The progressive solutions, on the contrary, are co-operative: they function all the better by being extended to a greater number of countries. If all the European countries reduced the duration of working time and taxed the revenues of capital, this coordination would make it possible to eliminate the repercussions to which this same policy followed in only one country would be exposed. The way to be explored is thus that of a strategy of extension which a government of the radical left could follow:

1. It takes unilaterally the "good" measures (for example the taxation of financial transactions);

2. It associates this with protective measures (for example control of capital);

3. It takes the political risk of infringing European rules;

4. It proposes modifying them by extending on a European scale the measures it has taken;

5. It does not exclude a trial of strength and it uses the threat of leaving the euro.

This schema takes into account the fact that we cannot make the implementation of a "good" policy conditional on the constitution of a "good" Europe. Retaliatory measures of all kinds must be anticipated by means of measures which, indeed, call upon the protectionist arsenal. But it is not a question of protectionism in the usual sense of the term, because this protectionism is protecting an experience of social transformation and not the interests of the capitalists of a given country against the competition of the others. It is thus a protectionism of extension, whose logic is to disappear as from the moment when "good" measures become generalized.

The break with European rules is not done on as a matter of principle, but starts from a measure that is just and legitimate, which corresponds to the interests of the greatest number and which is proposed as a procedure to follow in neighbouring countries. This hope of change then makes it possible to base ourselves on the social mobilization in other countries and to thus build a relationship of forces which can influence the European institutions. The recent experience of the bail-out of the euro showed, moreover, that it was not necessary to change the treaties to go beyond some of their provisions.
An exit from the euro is no longer, in this schema, a precondition. It is on the contrary a weapon to be used as a last resort. The break should rather be made around two points which would make it possible to obtain real room for manoeuvre: the nationalization of the banks and the repudiation of the debt.

# Breaking and refounding

The first advantage is the ability to harm capitalist interests: the innovating country can restructure its debt, nationalize foreign assets, etc., or threaten to do so. Even in the case of a small country, the capacity of response is considerable, taking into account the interconnection of economies and financial markets. Many people could lose out, for example the European banks in the case of Greece. Instead of lying down literally before finance, Papandreou could have begun a trial of strength by saying: "Greece cannot pay, so we have to discuss". That is what Argentina did by suspending its debt in 2001 and by obtaining a renegotiation of it.

But the main advantage would lie in the co-operative character of the measures taken. This is an enormous difference with traditional protectionism which always seeks at bottom to defend its own interests by taking market shares from its competitors. All progressive measures, on the contrary, become all the more effective as they spread over a larger number of countries. We should therefore speak here about a strategy of extension which rests on the following discourse: "we affirm our determination to tax capital and we are taking adequate protection measures. But that is only while we wait for this measure to be, as we propose, is extended to the whole of Europe." It is thus in the name of another Europe that the break with really existing Europe would be undertaken So rather than counterposing them to each other, it is necessary to think of how to articulate the break with neoliberal Europe and the project of refounding Europe.

# The project and the relationship of forces

A programme which only aimed to regulate the system around the edges would not only be insufficient, but also not very capable of mobilizing people. On the other hand, a radical perspective is likely to discourage people as they confront the scale of the task. It is to some extent a question of determining the optimal degree of radicality. The difficulty is not so much to work out devices of a technical kind: that is obviously essential and a lot of work has already been done on it, but no skilful measures can make it possible to circumvent the inevitable confrontation between contradictory social interests.

Concerning the banks, the spectrum goes from full-scale nationalization to regulation, with in the middle the constitution of a public financial pole or the establishment of very constraining regulation. As for the public debt, it can be cancelled, suspended, renegotiated, etc. The full-scale nationalization of the banks and the repudiation of the public debt are legitimate and economically viable measures, but they can appear out of reach, because of the present relationship of forces. There lies the real debate: where is, on the scale of radicalism, the position of the cursor that makes it possible best to mobilize? It is not up to the economists to settle this debate and that is why, rather than proposing a set of measures, this article has sought to raise questions of method and to underline the need, for a real way out of the crisis, for three essential ingredients:

1. A radical modification of the distribution of revenues;

2. A massive reduction of working time;

3. A break with the capitalist world order, starting with really existing Europe.

The debate cannot be locked into an opposition between anti-liberals and anti-capitalists. This distinction obviously has a sense, according to whether the project is to rid capitalism of finance or to rid us of capitalism. But this tension should not prevent us from going a long way together, while carrying on this debate. The “common programme” could be based here on the determination to impose different rules on the functioning of capitalism. And this is really the dividing line between the radical Left which wants to break from the system and social-liberalism which wants to go along with it. In any case the priority task today is, for the radical Left, to build a common European horizon which can provide the basis for a real internationalism.

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[1] Ã–zlem Onaran, “An internationalist transitional programme towards an anti-capitalist Europe”: http://www.europe-solidaire.org/spip.php?article21142

[2] Jacques Sapir,” S’il faut sortir de l’Euro”, working paper, April 6, 2011:

http://gesd.free.fr/sapirsil.pdf.

 